

*Answered Attest.
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IN THE

Supreme Court of the United States

October Term 1942

No. 696

A. W. ALTVATER AND THE WESTERN SUPPLIES
COMPANY,

Petitioners,

v.

BENJAMIN W. FREEMAN AND THE LOUIS G.
FREEMAN CO.,

Respondents.

BRIEF FOR RESPONDENTS

(Plaintiffs and Appellants below)

According to the rules of this Court, the petitioners should include in their brief a succinct statement of *all* the facts. The brief filed in this cause fails utterly to do so, because it omits all of the key facts on which the respondents have relied both in the pleadings and on the proofs.

Essentially what the present appeal amounts to is an effort on the part of the petitioners, the largest makers

of dies for the shoe manufacturing trade in this country, to "strike down" the patents of the respondents without subjecting themselves to an injunction, if they fail to do so. Our law does not provide for recourse to the Court to adjudicate controversies which do not exist. Petitioners contend that they can continue to pay royalties to respondent, thus preventing suit for or relief against them for infringement, and yet ask this Court to find the patents of the respondent to be invalid. They ask this by way of Declaratory Judgment. Under such circumstances there is no justiciable controversy.

An analysis of the pleadings and the Court of Appeals decisions will show that nothing else is involved, because on everything else in the case, Altvater and his company The Western Supplies Co. were successful. One cannot complain of a decision in one's favor because it does not pass on all of the reasons advanced as to why it should be granted.

In this cause the Court of Appeals has held that certain devices evolved by the petitioners in order to get around the obligations of their license contract with the respondents, have succeeded in doing so. It has held that Freeman, the patentee, by reason of the fact that he had to reissue his patent in view of certain subsidiary parts thereof having been held invalid in another jurisdiction, has lost his license contract with the petitioner, the income from which was naturally his chief source of income from his patents. Still, the petitioners, ill-content with having so far defeated Freeman, now seek to persuade this Court to "strike down" the reissue patents as well, leaving him with nothing. As we have noted, the petitioners go even further. Being unwilling to risk a situation wherein they could be enjoined under the reissue patents if they are valid, they seek this utter defeat of Freeman while retaining immunity from attack under his patents if they

were to be held valid, (first) by paying royalties throughout the period of this litigation, and (second) by virtue of a finding in the District Court, which they insist is correct, that if the patents to Freeman are valid, then they, the petitioners, have not lost a right to continue as licensees thereunder (Rec. p. 85).

This cause is not a patent infringement suit. It is a suit for specific performance of a contract in which the plaintiffs are not asserting a right to injunction against infringement. As appears in the decision of a former suit betw [sic] the parties hereto (*Freeman v. Altvater*, 66 Fed. [2d] 506), Altvater in January 1929 signed a contract with Freeman for license under Freeman patent 1,681,033, which had issued in the previous August after pending for some years due to lengthy interference proceedings. The patent contained claims for what is termed a "cut-out machine" (a term which entered the shoe making art as a result of the Freeman innovations) and dies for use with the machine. Although Freeman had licensed his other large competitors to make both machines and dies under his patent, he required Altvater to agree that he would make only a limited number of the machines although licensing outstanding Altvater machines which had theretofore been placed on the market.*

Altvater had been operating according to the Freeman inventions since late in 1923 (as the Court found in 66 Fed. [2d] 506, at page 506), but he had no sooner signed the license contract than he came out with a machine which he called his Model T machine and which had evidently been ready and prepared as an instrument to defeat the effects of the license so far as Freeman was concerned. To protect himself against this piracy, Freeman brought

* No "large payments of money" were received by Freeman for this right as is said in Petitioner's brief, p. 4.

a suit for specific performance. The Court decided in his favor and the Altvater machine was enjoined.**

Thereafter Altvater, who had acquired rights under the licensee contract to make what is known as a flat bed die with a mask upon it, on which Freeman also had claims in his patent, got out "knockers" for that character of die, calling his new dies "elevated gauge" and "clamp gauge" dies. Being unable to get these dies into the accounting in the original suit, Freeman brought this ancillary suit, also for specific performance.***

The reason why the present validity controversy arose was because Freeman had had certain of his sub-combination claims held invalid, but the mask die claims held valid, in the suit of *Freeman v. Premier*, 84 Fed. (2d) 425, and proceeded to reissue his patents, after which he sent the reissues to Altvater stating that they would apply thereafter to his contract. As we will show, Altvater continued to pay royalties. When Freeman revived the present cause under one of his reissues, *then it was that petitioners thought they saw a way of getting the Freeman patents invalidated, without risking their business in case of a conclusion to the contrary.* They attempted this futilely in two other proceedings before the present one. In the present one they won in the District Court but lost in the Court of Appeals.

The record is devoid of any proofs as to the problems confronted by Freeman in making his inventions, of the

** "Freeman in 1923 produced a machine to make cut-outs in such uppers. . . . The Freeman machine met with favor, and the defendants copied it in order to meet the demands of their customers. After Freeman had been granted his patent, the controversy which arose . . . was settled by the license agreement . . . which was entered into on January 1, 1929. . . . Within a few days after the execution of this agreement, the defendants placed upon the market a cut-out machine, known as the 'Model T,' designed by the defendant Altvater, president of the defendant company. . . ." (*Freeman v. Altvater*, 66 Fed. [2d] 506-7).

*** It should be noted that Petitioner's brief, p. 4, says that Altvater's sale of dies under the license was restricted to possessors of licensed machines. This is not true. Flat bed dies with mask were not restricted at all.

basis for his solution thereof, or of the prior art practices which his inventions displaced. The only attack on his patents is highly technical. The attack is based on the theory that if a patentee files a reissue application and at the same time files a disclaimer in connection with the original patent, his rights become fixed, as if he had filed a disclaimer *only*, and irrespective of the fact that he was granted reissue patent and placed no reliance on the original patent at any time since filing the reissue application. According to the petitioners' theory, one should consider just the original patent and the disclaimer thereto, even though the disclaimer was filed after the reissue applications, and if the original patent read with the disclaimer contains a single claim which is of substantially the same scope as a claim which had been disclaimed, then *ipso facto* the original patent becomes invalid, even though no suit was filed upon it. Taking another step, they say that since the original became invalid, then the reissue is invalid also.

This position (irrespective of its lack of factual basis) neglects common sense and is supported by no authority. It ignores the fact that the reissue was what the patentee thereafter relied upon, that in a reissue application the Commissioner of Patents scrutinizes every claim, whether it was taken from the original patent or newly added, and that the reissue is therefore *prima facie* valid as to all claims therein, as a result of a re-examination in the Patent Office.

Insofar as concerns the contentions made that Freeman is seeking by his patents to maintain a monopoly in unpatented articles, the petitioners do not contend that this issue is really involved in this appeal. Their brief practically admits that the various points, which by the way are quite unfairly made, are advanced simply to try to prejudice Freeman in the eyes of the Court. The main

reason, aside from their unsubstantial nature, that these charges have nothing to do with this case, is that they were advanced as a defense against the original and supplemental bills in this case, and on other grounds the Court of Appeals sustained a dismissal of the bills. In other words, the petitioners were successful on the branch of the case in which this *defense* was advanced, and have no appeal.

Fundamentally, of course, this appeal involves the decisions and orders of the Court of Appeals with reference to the counterclaim of the petitioners. If there is no error in them, they should be sustained.

There is little romance in an effort to define the issues of a complicated litigation, analyze the decisions and decrees, and thus reach an understanding of the questions really presented on the record. But since time immemorial this Court has been concerned in passing only on questions which are properly before it, and since petitioners have made no effort to define them here, it develops upon respondents to do so.

STATEMENT

In 1923 B. W. Freeman, one of the respondents, filed application for letters patent on a cut-out machine and dies for forming decorative patterns of holes in women's shoes. Due to interferences which he was finally able to settle, the patent did not issue until August 1928, as Patent No. 1,681,033. In the meantime, Altvater, one of the petitioners, built up a large business in cut-out machines and dies therefor, and the settlement contract and license involved here was signed between the parties on January 1, 1929.

At once, as we have noted, Altvater came out with another machine and dies which he contended did not come

under the license contract, and a suit in specific performance to determine his responsibility as to this machine and these dies, was brought by Freeman and decided in his favor, *Freeman v. Altvater*, 66 Fed. (2d) 506.

As we have noted, the present cause was then brought, ancillary to the accounting. The bill was filed in December 1935.

In June 1936 the cause of *Freeman v. Premier*, 84 Fed. (2d) 425, was decided, holding certain claims of the Freeman patent invalid and certain claims valid. Thereupon Freeman applied for and obtained two reissue patents, Nos. 20,202 and 20,203. These two patents describe and claim the two aspects of the Freeman invention which petitioners themselves admit was of extreme interest in the modern development of the women's shoe industry.

The former (No. 20,202), relates more specifically to a die having a base, cutting edges on the base, and a mask plate related to the base, said plate having an opening of a special shape to match the portion of the pattern of the shoe which is to be punched with holes, as a decoration thereof. The latter (No. 20,203) relates to a machine having a frame, an anvil-like work support having a special shaped top which accommodates that portion of some selected shoe which is to be decorated with holes, thus permitting a closed shoe upper with lining in place therein, to be arranged with the portion thereof to be decorated flat on the support, and the remainder draped. The frame of the machine is such as to permit the hands to grasp the work while on the support and tension it, and adjust it to proper position. The machine includes a die, which in the preferred form was located edge-up on top of the work support. It also includes a plunger which is independent of the die and work support, so that the shoe upper can be accurately placed with relation to the die, and then a blow struck to the assembly of shoe and die.

In this way, particularly if a mask is used to locate the work, a very accurate cutting of holes can be obtained.

The mask die structure and the cut-out machine as a whole were a very great advance in the shoe industry, which had theretofore cut out the individual shoe portions before they were assembled together into the completed shoe upper, with the result that the shoe upper lining had to be cut away by hand. By the time that Freeman was able to get out of the interferences and obtained his original patent, his inventions had been widely adopted. [The above facts may be obtained from the decisions in 66 Fed. (2d) 506 and 84 Fed. (2d) 425.]

The original patent contained claims which related to both the machine structure, the mask die structure, and the anvil support and die without the mask upon it, which was the sub-combination held invalid against Premier. The reissues omitted the subsidiary anvil-die claims which had been held invalid in the *Premier* case and corrected certain mask die claims which had been held to be too broad. As stated, Re. 20,202 was for the mask die, and 20,203 was for the entire assembly as a cut-out machine, including certain new machine-method claims, which the *Premier* decision indicated as proper.

THE REISSUES ARE SENT TO ALTVATER

Immediately the reissue patents were obtained, which was in December 1936, Freeman sent them to Altvater, with a letter (Rec. p. 486) in which he stated that they were to be substituted for the original patent in the license contract between the parties. Nothing was heard from Altvater for several months except that the regular royalties were paid as to the dies on which there was no pending controversy. *Indeed Altvater continued to pay them up until the decision of the District Court in this cause, wherein it was held that the reissue patents were invalid.*

In its first decision, the Court of Appeals held that there had been no substitution of the reissues, mainly because of the way in which Freeman had worded his letter of December 1936.

THE SUPPLEMENTARY BILL

By motion on April 9, 1937, which due to improper notice had to be renewed (which was done on June 5th, 1937), respondents filed a supplemental pleading in which they recited the granting of the reissues, that petitioners had by their conduct acceded to the substitution thereof in the contract, and introduced into the cause reissue patent No. 20,202, in place of the original patent, as a basis for recovery. The supplemental pleading also set up that claims 6 and 7 of reissue 20,202 were the same as claims 18 and 19 * of the original patent, which entitled respondents to revive the cause under these claims according to the reissue statute (U. S. C. A. Title 35, Sec. 64).

THERE WERE TWO ATTACKS BY ALTVATER AGAINST FREEMAN PRECEDING THE PRESENT ONE

For some reason which has always appeared to respondents as if the essential object was harassment of Freeman, the petitioners here saw fit to file suit for declaratory judgment in the first place in Cincinnati, Ohio, in support of the contention now made in the counterclaim in suit here, that since the Freeman patents were reissued this gave petitioners a right to have the license contract revised if the reissue patents were valid, but that they were free to contest validity of the reissue patents while holding onto a license by paying royalties as usual. This was because the obvious thing for them to have done, if

* Claim 18 was sustained in the *Premier* case. Claim 19 was not involved.

the injunction in the original suit no longer applied with full force, was to move to modify or vacate it.

The petitioners were not content to make such a motion and instead of doing so filed motion in the original cause for leave to enter a bill of review, alleging again that the Freeman reissue patents were invalid, and seeking to reopen the entire matter *de novo* (while still paying the regular royalties to Freeman).

A reading of the Declaratory Judgment action in Cincinnati (Phys. Ex. 28 in this cause) and of the proceedings for bill of review (Phys. Exs. 20-23 and 26) in the Court of Appeals for the 8th Circuit, will show that the objectives in both instances were the same. Furthermore, they were the same as the issues set up in the answer and counterclaim in the present cause, at a subsequent date.

On the face of the Cincinnati bill, Judge Nevin found that it did not state a cause of action in Declaratory Judgment, which is what the Court of Appeals of the 8th Circuit is here claimed to have erroneously held as to substantially the identical issue set forth in the counterclaim, dismissal of which forms the basis of the present appeal. On the motion for Bill of Review and on a record which was complete as to the Freeman invention, and on an affidavit record which sets up the facts which are of record in the present case, the Court of Appeals of the 8th Circuit also refused Altvater's motion for leave to file a bill of review.

The petitioners were not willing to let Judge Nevin's decision stand, but appealed therefrom, with the result of affirmation of Judge Nevin's decision.

Petitioners have indicated in their brief that the decision of the 6th Circuit Court of Appeals warrants their contention that the validity of the Freeman reissue patents can properly be attacked by them. But it is quite clear from the record on appeal in the 6th Circuit (Phys.

Ex. 28) that that Court had nothing before it but the pleading allegations of petitioners here, wherefore the comments in that decision while not properly being interpretable as petitioners suggest, are certainly not to be taken as a ruling on the entire facts, or on any issue presented on pleadings and proofs. As we read the decision of the Court of Appeals of the Sixth Circuit, it did not at all adjudicate that Judge Nevin was incorrect in holding that there was no justiciable Declaratory Judgment action according to the facts as set forth in the bill as filed. Since that bill is substantially the same thing as the present counterclaim, and since Judge Nevin was affirmed generally, we contended in the present case that the issue which is the subject of the present appeal was res adjudicata between the parties. Among other things the Court of Appeals of the 6th Circuit did not know that petitioners here had filed their motion for bill of review in the Court of Appeals of the 8th Circuit in the original cause and had been unsuccessful.

It was in October 1937 (shortly after the original decree of dismissal in the Cincinnati case) that the answer and counterclaim in the present case was filed.

THE COUNTERCLAIM

Since Altvater's counterclaim herein is the sole basis of the present appeal, and the brief for Altvater does not describe it, we believe that we should do so. It essentially seeks an advisory action.

It recites (Rec. pp. 45-58), (19) that defendant wishes to continue in its operations under the Freeman patent within the limits held valid in the *Premier* case, and were willing to pay proper royalties thereon; (20) that Freeman "wilfully" surrendered his original patent No. 1,681,-033 and thus left defendant subject to additional litigation

for infringement of the reissue letters patent, because Freeman had "destroyed" the license contract; (21) that if defendant is forced to accept substitution of the reissue letters patent, this would require recognition of claims in them which were invalid, and acknowledge validity of claims which were broader than previous claims in the original patent; (22) that defendants must either acknowledge validity or cancel the original contract based on clause 18 thereof (Rec. p. 12), the latter course being one which would subject them to patent infringement suit; (23) that the contract must be reformed to protect the defendant; (24) that defendant was under injunction in cause 8962 [66 Fed. (2d) 506] although now Freeman had no valid claims, *wherefore the prayers were* (1) that the contract be "interpreted" in the light of the decision of *Freeman v. Premier*, (2) that the license contract be interpreted to readjust the relationship of the parties, (3) that the original contract "in its original form" be declared terminated, (4) that both reissues of Freeman be declared invalid, but if neither is invalid, then to interpret it or them, (5) if either or both reissues is valid, to "grant" the defendants a license under them with a royalty commensurate with the benefits received, (6) to declare that the injunction in the original cause (8692) be terminated or to define its limits, (7) to dismiss the *bill of complaint and supplement* because of unclean hands, (8) for general relief. (Note: The so-called "unclean hands" referred to here comes from the answer that accompanied the counterclaim in which answer it was asserted only that it was "unclean hands" for Freeman to have taken out the reissues.) (Rec. p. 45, clause 18.)

The basis for the allegations of invalidity of the reissue patents in this counterclaim relates back to allegations in the accompanying answer, which we will speak of later.

It was a technical defense, based on reissue procedure which we have already noted, and *was not an attack on the reissues generally for anticipation or lack of invention.*

Our reason for insisting on this point is that because of the way the issues were set up at the trial, respondents were prevented from introducing any proofs which tended to support the patentability of the Freeman inventions. It would therefore be highly unjust to attempt to adjudicate their patentability in general in this case.

To this counterclaim and to all matters in the answer which alleged invalidity, Freeman filed a motion to strike (Rec. p. 49). The District Court denied the motion, and thereupon under protest Freeman filed his reply to the counterclaim (Rec. pp. 51 to 55).*

REPLY TO COUNTERCLAIM

In the reply Freeman stated, among other things: (8) that there was no controversy between the parties as set forth in the counterclaim which was justiciable; (9) that the issues made on the counterclaim had been adjudicated in the Cincinnati case (Eq. 1015, U. S. Dist. Ct., S. Dist. of Ohio); (10) *that the bill and answer express the only controversy between the parties;* (11) *that there was no possibility of the Court "reforming" the contract as prayed for because there was no previous understanding of the parties on which such reformation could be based;* (12) that defendant set forth matters in its counterclaim which the Court of Appeals had refused to recognize as grounds for reopening of the original cause, wherefore the counterclaim was deceptive in failing to note this; (13) that the counterclaim merely sought "advice" from the Court, which was not a basis for adjudication; (14) *that since ro-*

* It will be noted that petitioners have abandoned the position taken on petition for writ, that Freeman voluntarily accepted the validity issue.

alties had been paid continuously by defendant to Freeman, the latter had no right to bring any action on his patents, and hence there could be no justiciable controversy as to their validity, since there was no unlitigated cause of action pending upon which the Court had jurisdiction to make findings.

THE ANSWER OF ALTVATER TO THE SUPPLEMENTAL BILL

In order finally to orient ourselves with regard to the issues made by the pleadings, we should note Altvater's answer to the supplemental bill (Rec. pp. 40 to 45). This answer denied that the reissue letters patent had been substituted in the contract, denied that reissue 20,202 covered the dies charged to come under the contract in Freeman's supplemental bill, admitted that the 6th and 7th claims of reissue 20,202 were the same as claims 18 and 19 of the original patent, denied ratification of the letter substituting the reissues, and stated that while defendants had paid the royalties under the contract since the reissue

"that they paid because the reissues purported, however falsely, to cover those dies upon which payment was made, so that they were subject to an immediate infringement suit if they did not pay." (Italics ours.)

The answer then proceeded to set up the *Premier* decision, the reissues and disclaimer matters, which are said to have destroyed the license contract, and urged (a) that reissue 20,203 was invalid because it contained claims held invalid in *Freeman v. Premier*; (b) for new matter, and (c) that both 20,202 and 20,203 were invalid because there was no inadvertence warranting a reissue; and because not timely sought. *These issues as to validity are the only issues pleaded in the case.* The counterclaim simply referred back to them. There was no attack in these pleadings on Re.

20,202 except lack of inadvertence and laches. Neither of these two points is asserted in the present brief of petitioners. The introduction of patent 20,203 into the controversy was solely by the petitioners. Patent 20,202 was the only one substituted in the Supplementary Bill.

THE AMENDMENT TO ANSWERS

Not until close of plaintiffs' proofs, during the trial of this case (Rec. p. 496), did the defendants file their charge of "unclean hands" against Freeman based on the allegation that monopolies in unpatented articles were sought to be established by Freeman in licensing his patented machine for use exclusively with unpatented dies, and licensing persons to make unpatented dies for use with said machines exclusively (a charge which it will be noted is not established in the brief now filed). This was purely a defense to the bill and supplemental bill and not sought to be made part of the counterclaim, as already noted. All that was introduced by way of proof in support of this defense was the licenses of Freeman under his patents, and subsequent to the trial certain old and abrogated machine leases. These facts explain the meagerness of the record as to this defense of petitioners. Incidentally Freeman was ill and not able to attend the trial.

THE DECREE OF THE DISTRICT COURT

To understand the decision of the Court of Appeals, we must now turn to the decree of the District Court (Rec. 89). This contains five recitals and an assessment of costs against Freeman. It finds (1) that the particular dies accused in the bill were not an infringement of reissue patent 20,202; (2) that the original contract terminated on December 8, 1936 (which was the date of reissue), and that no new contract had been entered into; (3) that Freeman

was "evicted" from his monopoly by the *Premier* decision, and from claiming any scope for a mask die beyond that which the Court had set forth in his findings of fact, that the disclaimer of Nov. 11, 1936, fixed this eviction, that the original patent 1,681,033 thereby became invalid, and that the reissue patents 20,202 and 20,203 were invalid;* (4) that the bill and supplement be dismissed and, finally, that

"(5) The issues on the counterclaim are found in favor of defendants and the counterclaim is granted as herein set forth."

It will be noted that the first four paragraphs of this decree relate to *issues derived from the bill, supplemental bill and answer to the supplemental bill.*

THE FIRST DECISION OF THE COURT OF APPEALS

If we now forget the counterclaim for a moment, and the original decision of the Court of Appeals herein made no mention of it whatever, there is clearly drawn an issue on the bills and answers: (a) as to whether certain dies were within an existing license contract, as to which the Court of Appeals found that the contract had terminated as of the date of the reissue patents, as set forth in the answer, and that the actual dies did not infringe the original patent as claimed in the bill; and (b) as to whether the bill should be dismissed because the reissue patents were invalid in view of the *Premier* decision taken with the reissue procedure; and (c) as to whether the bill should be dismissed because of "unclean hands." As to the issues under (b) and (c), the Court of Appeals found that there was no necessity of considering the contention as to "unclean hands" and no necessity of considering the contention as to validity of the reissues, because of its finding on non-infringement and that the contract had terminated.

* I. e., because the original patent had become invalid, we presume.

THE FIRST DECREE OF THE COURT OF APPEALS

Thereupon the Court of Appeals ordered that the decree of the District Court be *affirmed generally*. This Freeman claimed to be a mistake, in a petition for rehearing which was at first denied. Then, a motion to reform the Court of Appeals decree was filed, and the Court of Appeals reopened the dismissal of Freeman's petition for rehearing, and duly filed its second decision which forms the basis of the present appeal to this Court.

THE SECOND DECREE OF THE COURT OF APPEALS

In its decree on rehearing the Court of Appeals ordered that the decree of the District Court be modified by striking therefrom the 3rd and 5th paragraphs.

THE DECISION APPEALED FROM

Beginning at page 969 of the Record, the decision of the Court of Appeals on rehearing first summarizes the decree below and states:

"Being of the view that the trial court properly dismissed the plaintiff's bill of complaint and supplemental bill because defendants were no longer licensees and that their accused devices did not infringe plaintiff's reissue patent 20,202, we affirmed the decree without considering the question of the validity of plaintiff's patents. We also put aside as unnecessary for decision the contention of defendants that plaintiffs had entered into license and lease agreements by which they attempted to monopolize and limit competition in unpatented dies and machines and we thought it unnecessary to consider the question of validity. . . ."

Then, noting that plaintiffs contended that general affirmance of the decree below went further than the decision, the Court says:

"The trial court having found no contract of license between the parties and having found no infringement, the other issues became moot, and there was no longer a justiciable controversy between the parties" (citing *Electrical Fittings v. Thomas and Betts*, 307 U. S. 241 and other cases).

A short discussion of these cases follows, showing that modification of the decree below was required and then the Court of Appeals mentioned the counterclaim. (Bottom of page 972.) *This was the first time the counterclaim was mentioned at all.* What the Court of Appeals said was:

"By their counterclaim defendants sought declaratory judgment, but, as already observed, when the court found no infringement, there remained no justiciable controversy" (Ashwander v. Tennessee Valley Authority, 297 U. S. 288; Aetna Life Ins. Co. v. Haworth, 300 U. S. 227).

The Court of Appeals without discussion of the application of the facts to the *Ashwander* and *Aetna* cases, then proceeded to modify its former decree, as already noted, to strike out paragraphs 3 and 5 of the original District Court decree.

Whether or not the Court was correct in revising the District Court decree dismissing the bill and supplement is moot. Altvater won that case and cannot appeal. *His only appeal is on the counterclaim*, as petitioner's brief admits.

We have noted that in discussing its former decree the Court of Appeals referred to the *Thomas & Betts* case, but in referring to the counterclaim, mentioned only the *Ashwander* and *Aetna Life Ins. Co.* cases. The significance of this is best brought out by considering the arguments of the plaintiff Freeman, as to why the counterclaim should be dismissed.

THE REASONS SET FORTH IN FREEMAN'S PETITION FOR REHEARING FOR DISMISSAL OF THE COUNTERCLAIM AS TO PATENT INVALIDITY

We will quote what we set forth in our petition for rehearing (Rec. 963-4) :

"3. So far as the counterclaim concerns the issue of patent validity, the issue was not a proper one to be considered anyhow. The reason for this is, as we have noted, that no patent infringement suit faced the defendants on the reissues because they were maintaining a right not to be sued by paying royalties thus binding Freeman to the contract as modified by the December 1936 letter. Whatever may have been the position of Defendants, or the nature of the Freeman tender of his reissues in place of the original patent, Freeman was surely bound by his tender, because he stated that the contract applied to the reissues instead of the original contract and in response defendants kept on paying royalties.

"Whether or not the defendants were bound by the provisions of the original contract with the reissues substituted, Freeman was so bound. The phenomenon of one party being bound to a patent license contract and the other bound only as a licensee 'without portfolio' is the effect of the decision of this Court as we view it.

"Defendants were surely protected by an immunity from suit under the reissue patent 20,202 which was the only one they were infringing. This Court found the clamp gauge and elevated gauge dies not to be infringements, and found that dies having fully closed holes in the masks to be within the patents. By keeping up royalties defendants maintained immunity from patent suit against them for producing and selling the latter dies. They were thus licensees, because in its simplest legal form a license under a patent means freedom from suit thereunder. As licensees they could not hold their position and yet attack the validity of

the patents, and in a Declaratory Judgment action, which is the effect of the counterclaim, they could not maintain an action for testing validity, because they were not threatened with an infringement suit.

"Our present point is that there was no 'justiciable' controversy between the parties involving the validity of the Freeman reissue patents. And, of course, this Court having found non-infringement, and stated that it was not necessary to consider validity on the issues raised by the Bill and Answer, would in the ordinary course, as indicated in the above cited authorities, instruct the District Court to modify its decree."

We see little reason against a conclusion that the above points were deemed controlling by the Court of Appeals, in their refusal to sustain petitioners' counterclaim, which is the sole issue on this appeal.

The Court of Appeals, as we view it, when it came to pass on the counterclaim had no item in the decree to consider except item 5 which we quoted above, which simply stated that the counterclaim was granted. The Court of Appeals, however, says in the passage from its decision on this subject that once the District Court found no infringement, there was no justiciable controversy left in the counterclaim.

The Court of Appeals understood that Altvater had been paying royalties during the entire period since the reissues on the regular dies made under the contract, and was seeking to have the reissue patents declared invalid so that he could stop doing so. For this reason it held in effect that as to the dies on which regular royalty was paid there was no controversy on the basis of the *Ashwander* and *Aetna* cases, and that as to the dies on which there was indeed a controversy and on which no royalty had been paid, the District Court had held that they did not infringe.

The latter was what Freeman urged in the petition for rehearing as quoted above.

In Freeman's brief before the Court of Appeals at the original hearing he said:

"Thus we have a situation which is *not* an actual controversy. There is no suit which the plaintiffs could bring and have delayed or refused to bring. They are getting their royalties and have substituted the reissues and hence cannot sue for infringement. The defendants can hire attorneys to decide as to the validity of the reissue patents. There is no allegation of anything being concealed. They wish, however, to get this Court to state its opinion on the hypothetical case of an infringement action, which is not imminent, and indeed could not be brought.

In *Aetna Life Ins. Co. v. Haworth*, 300 U. S. 227, the Supreme Court held that an 'actual controversy' which is necessary for a suit under the Declaratory Judgment Act

'Must be real and substantial controversy admitting of specific relief through a decree of a conclusive character as distinguished from an opinion advising what the law would be on a hypothetical state of facts.'

As was said by the Supreme Court in *Ashwander v. Tennessee Valley Authority*, 297 U. S. 288, 325:

'The Act of June 14, 1934, 28 U. S. C. 400, providing for declaratory judgment does not attempt to change the essential requisites for the exercise of judicial power. By its terms, it applies to "cases of actual controversy," a phrase which must be taken to connote a controversy of a justiciable nature, thus excluding an advisory decree upon a hypothetical state of facts.' "

It is hardly conceivable that the Court of Appeals would cite the *Ashwander* case and the *Aetna Life Ins. Co.* case, which are the ones that Freeman relied upon in his original brief, while totally misapprehending the nature of the issue. These cases were cited on no other point in any of the briefs.

True, in the original decision, the Court of Appeals held that the license contract had been terminated, but this does not mean that Altvater did not preserve his rights against suit for infringement, particularly as in his answer he categorically stated that this was his purpose in continuing to pay royalties. We have already quoted this passage.

The counterclaim which the Court of Appeals refused to affirm was really directed to obtaining an advisory decree in order to help Altvater to decide whether or not he should continue to pay royalties.

What indeed happened when the District Court found the reissue patents invalid was that Altvater then stopped paying under the contract although he had done so for nearly five years since the grant of the reissues. So that the real question in this case is whether or not if a patentee-licensor has his patent declared valid in part and invalid in part, persuades the Commissioner of Patents to reissue his patent and sends the reissue to his licensee telling him that it is substituted in the contract, and who receives his regular royalties thereon for a period of five years, can be sued in Declaratory Judgment for a decision as to whether or not the reissue patents are invalid, in spite of the continued payment of royalties.

If we are correct in our interpretation of the decision, it is clearly right on the authorities cited in the decision. If we are incorrect in our interpretation of the decision, still the conclusion and decree of the Court of Appeals was right, because there was indeed no *other* justiciable controversy between the parties. The validity of Freeman's reissues will be subject to attack should he seek to gain any advantage thereunder against petitioners or their customers, as infringers, but not until then.

THE PREMIER DECISION AND THE REISSUE PROCEDURE

We enter upon the following discussion with some doubts as to whether this Court will wish to consider it. If the Court of Appeals properly dismissed the counterclaim because it did not present any justiciable controversy in view of the fact that all actual controversies between the parties had been adjudicated on the bill, supplemental bill and answers thereto, then this disposes of this appeal entirely. If this Court should find that the counterclaim did properly present an issue of validity of the patents, then it may well be that this Court will wish to send the case back to the Court of Appeals to pass upon it.

However, and with considerable hesitancy at the extensive comments on facts and arguments which will become involved, we consider it our duty to present the validity issue, in so far as the present record brings it into question.

The Court of Appeals in the cause of *Freeman v. Premier*, 84 Fed. (2d) 425, held as already noted that a group of claims of the Freeman patent 1,681,033 relating to the anvil-like die without a mask were invalid. At the same time it held that the Freeman invention had been very substantially adopted in the making of women's shoes, *but regarded it chiefly as one of method*, not regarding the mechanism involved in the so-called "anvil die," *per se*, as more than mechanical skill.

The Court also held that the combination of a work support, a die thereon, and a mask plate which had openings which conformed to parts of the pattern of the shoe to be decorated, was a good invention, but held invalid claims which did not include the cutting edges of the die as part of the combination; i. e., the decorating element and shaped mask were necessary parts of the combination.

Thus we have two items held invalid—the mask die, where the claims did not include the cutting or decorating

element or the gauging effect of the edges of the mask as part of the combination—and the anvil die per se.

This is not what Petitioners say that the case of *Freeman v. Premier* holds. But what Petitioners say is not correct.

This Court refused certiorari in October 1936, as to the *Premier* decision. Thereupon Freeman filed application for reissue within a few days. He did this in two specifications, as already noted, one relating to the machine as a whole (which included the anvil die only as a machine element) and one relating to the mask die by itself. These were filed on October 30, 1936.

REISSUE No. 20,203

The recital of inadvertence in the application which became reissue patent 20,203, was as follows:

"The inadvertence, accident and mistake arose as follows: The affiant understood that claims 6, 7, 8, 62 and 71 relating to the anvil die of his disclosure; and claims 62, 65 to 69 and 94 relating to said anvil die with certain guiding means, stated patentable invention independent of the method of use of the same, merely because applicant had discovered a new use for such mechanism as was set forth in said claims and because they called for mechanism not the same as any prior mechanism, but that by a decision dated June 3, 1936, the Court of Appeals of the 1st Judicial Circuit in the cause of *Premier Machine Co., Inc. v. Benjamin W. Freeman* (the affiant), held the said claims 6, 7, 8, 62 and 71 invalid, saying:

'It seems clear that Freeman's contribution to the art in a mechanical way as described in this group of claims was at best of doubtful patentability and cannot be found to involve invention with such clearness and certainty as it reasonably

required in view of the extent and burden of the monopoly claimed.'"

And now in view of the said decision affiant is forced to accept as correct the said decision of said Court of Appeals. Applicant further says that the Supreme Court of the United States did on October 19, 1936, refuse to review the said decision and denied certiorari to applicant. Accordingly applicant has instructed his attorneys to file a reissue of his said patent dropping the said claims and inserting in their place, claims to his method of operation of the mechanism covered by said former claims, and alternatively certain claims to his said mechanism limited to use thereof in accordance with his said method, which is done herewith."

REISSUE No. 20,202

The recital as to reissue patent 20,202 was the same as the above but was followed by a statement that a separate reissue was applied for, explaining the basis in the following language:

"Wherefore he instructed his attorneys upon reissue to ask for this separate reissue patent covering the said die and mask aspect of his invention, and affiant further states that in said decision of the Court of Appeals of the 1st Judicial Circuit, the following statement was made:

'It will be necessary to consider separately the claims in this group. Those covering a clamp plate or mask having a fixed relation to the die and having a window the outline of which is similar to the pattern to be perforated, and which is so placed with relation to the pattern and to the die as to be used as a gauge, are we think valid. The mere use of a window in the clamp or of a straight curved edge in or connected with the clamp for gauging

* This quotation from the *Premier* decision is the key passage. We do not see how it could be contended otherwise in good faith.

purposes did not involve invention in view of the prior art.

'Applying these principles claims 10 to 17 inclusive are not good; claim 18 is good;' claim 70 specifies a clamp plate "provided with an opening through which the work may be observed and accurately positioned with respect to the cutting edges of the die." Construing this as referring to an opening so conforming to the size, shape and position of the ornamentation and so located with respect to them that it serves as a gauge this claim is valid; claim 79 contains nothing patentable over the prior art and is invalid; claim 81 specifies a clamp plate with "an opening to surround the cutting edges of the die, one edge of which is 'arranged to act as a gauge.' Construing this to mean that the shape of the opening conforms to the pattern of the ornamentations and that one edge of it is so shaped and located with respect to them as to serve as a gauge, it is valid.'

"Affiant says that he did not understand that his claims 10 to 17 and 79 were subject to construction as if disassociated from a die, and covering the mere use of a window in connection with a clamp. Accordingly applicant, in view of said decision, upon being advised, instructed his attorneys to drop, upon reissue, the said claims 10 to 17 and 79, and instead to present in their place certain claims which included the ornamenting means or die as a part of the combination with his said mask and to present as claims for reissue in said divisional case, claims which were free of the defect of not including the part which cut into the shoe material along with the mask; which affiant's attorneys have done herewith."

On November 10, 1936, the two reissues were allowed and on December 8, 1936, they were issued. On November

* This is claim 6 of Reissue 20,202, that formed the issue on the supplemental bill as to the dies on which petitioners refused to pay royalties. It was held not infringed as already noted.

11th, immediately following allowance of the reissues, which, as will be noted above, expressly omitted the claims held invalid in the *Premier* decision, Freeman filed a disclaimer in connection with patent 1,681,033.

THE DISCLAIMER

This disclaimer was probably unnecessary, because of the fact that the patent reissues had been granted, but for completeness and to avoid a contention that it should have been filed within a limited time of the Court decision, Freeman elected to do so. This disclaimer in the other than formal part disclaims:

*"Claims 6, 7, 8, 10 to 17 inclusive, 62, 66 to 69 inclusive, 71 to 74 inclusive, 79 and 94. And your petitioner further represents that he has filed a reissue application for reissue of the said letters patent, in which he has omitted the claims above disclosed, and in their place substituted ones which he believes to properly express his invention, and that this disclaimer is filed out of abundant caution in order to preserve unto him the rights to protection for that of which he is the original and first inventor."**

It will be noted from the above that in this disclaimer there was no change in Freeman's true situation. He notified the public that he had applied for reissue omitting the claims disclaimed, and indeed he had already received the formal notice of allowance of his reissue.

It is true that his original patent was not formally suspended until the actual printing and sealing of the reissue patents, but it seems evident without argument that the action taken by way of disclaimer was but parcel of the reissue proceedings, then pending.

* All that petitioners' brief quotes is the first sentence above, a typical instance of unfair presentation.

The reissue oath as to patent 20,203, is essentially to the effect that the mechanical claims held invalid were eliminated in favor of claims reading to a mechanical method, and as to reissue 20,202, that the mask die claims were revamped to include as elements of the combinations everything that the decision in the *Premier* case indicated was required to make them valid. The disclaimer simply followed the decision to the end of cancelling all claims which were held invalid. No effort was made to do anything else, since in the reissue 20,203, the claims retained related to the machine as a whole or the method claims noted, whereas in reissue 20,202, the claims held valid in the decision were retained, and the claims held invalid were revamped.

Petitioners made a comparison (on pages 26 and 27 of their brief), between claims held invalid and claims not disclaimed in the original patent during the reissue proceedings. The first comparison is between claim 7 disclaimed and claim 9 not disclaimed. *However, this 9th claim was not included in the reissue.* We feel that no further comment is required.

A comparison is also made between claim 6 disclaimed and claim 87 of the original patent retained. This claim became claim 32 of reissue 20,203. All one has to do is read claims 6 and 87 to see clearly that they do not relate to the same thing: one is for a subcombination of an anvil support and a die upon it, the other is for a complete machine with the clearances for the operator's hands, independent plunger, etc. Whether claim 87 is for a valid combination or an invalid one, in view of the prior art, is one thing. It is not for the same invention as claim 6. On the former question we refer to 66 Fed. (2d) 507 at page 508, which quoted and applied claim 87 of the original patent, although the issue of patentable novelty was not involved.

Petitioners compare claim 19 of the original patent (7 of the reissue 20,202) with claim 79 disclaimed. We will, in

the argument, explain the difference between these two claims. They do not relate to the same idea, at all. We might refer again to the fact that this form of attack on reissue 20,202 is not supported by anything set up in the pleadings. The sole contention there was that no inadvertence was shown, and undue delay in filing this reissue. We do not find that these points are insisted upon in the present brief as to this reissue.

TABULATION OF FACTS

- 1923—Freeman files application for patent, and Altvater begins infringement.
- 1928—Freeman obtains patent.
- 1929—Altvater signs license contract, and begins putting out pirate machine in derogation of its terms.
- 1933—July—Freeman obtains injunction against pirate machine—Altvater puts out so-called elevated and clamp gauge dies.
- 1935—December—Freeman files ancillary suit for accounting on elevated gauge and clamp gauge dies—the original bill in this cause.
- 1936—October—*Premier* decision certiorari refused by this Court.
- 1936—October—reissue applications filed.
- 1936—November. Reissue applications allowed—and disclaimer then filed.
- 1936—December—Reissues 20,202 and 20,203 issued.
- 1936—December—Reissues substituted in letter to Altvater, for the original in his contract.
- 1936-1941—Altvater continues to pay royalties as usual on dies not in contest in the present cause.
- 1937—April, and refiled in June—Supplemental Bill in this cause.
- 1937—April, Altvater files declaratory judgment suit in Cincinnati, praying for reformation of contracts, if reissues not invalid because of disclaimer.
- 1937—July—District Court dismisses Declaratory Bill.
- 1937—October—Altvater files motion for bill of review, concerning validity of reissues in original cause, praying retrial and vacation of the injunction.

- 1937—October—Altvater files answer and counterclaim in this cause, which is like Cincinnati suit.
- 1937—Court of Appeals, 8th Circuit, refuses to countenance the bill of review.
- 1940—Court of Appeals, 6th Circuit, sustains District Court in Cincinnati case.
- 1940—Trial had in this cause, and Altvater files defense of “unclean hands.”
- 1941—November—District Court decree finding contract at an end, invalidity of patent, noninfringement by elevated gauge and clamp gauge dies.
- 1942—July—Court of Appeals first decision, not mentioning counterclaim, stating issue as to validity and unclean hands not required to be passed upon, but holding contract terminated and dies on which no royalty paid, to be free of infringement.
- 1942—September—Court of Appeals rehears matter of decree upon first decision, and changes it to order District Court to strike holding of invalidity, and strike order sustaining counterclaim.
- 1943—Altvater then appeals to this Court from the holding that counterclaim should be dismissed.
- 1943—The accounting in the original cause still continues as the above review of the proceedings in the present matter would lead one to expect.

SUMMARY OF ARGUMENT

1. While petitioners do not advance the point particularly, we deem it clear under the law that as to all matters involved on the bill and answer as to which the petitioners were successful in the Court of Appeals, they have no right before this Court. That the Court of Appeals did not pass on all of the reasons advanced by petitioners as to why their position should be sustained is not appealable error.

2. The Court of Appeals was correct in dismissing the counterclaim as an unsound declaratory judgment action, due to the fact that there was no justiciable controversy

between the parties except as to dies on which the petitioners had been refusing to pay royalties, which dies had been held free of the patents of the respondents.

3. The *Sola Electric case*, 87 Law. Ed. 150, does not apply here.

4. The reissue patents are not invalid per se, because of the procedure followed in obtaining them. Where a disclaimer is filed as part of reissue proceedings resulting in reissue patents, it is the reissue procedure which applies, since upon them only the patentee must assert his rights.

(1) The Petitioners Cannot Complain of the Court of Appeals Decision, to the Extent That It Was in Its Favor.

As we have pointed out, the first decision of the Court of Appeals did not deal with the counterclaim at all, and the second decision was mainly a statement of why it should modify its decree of general affirmance of the District Court in view of its first decision, so as to strike therefrom the items as to validity of the patents.

So far as concerns the charge of "unclean hands," this was not included in the decree of the District Court at all.

So far as concerns the counterclaim, the sole holding of the Court of Appeals in its second decision appears in these words (already quoted above):

"By their contention defendants sought a declaratory judgment, but, as already observed, when the court found no infringement, there then remained no justiciable controversy." *Ashwander v. Tennessee Valley Authority*, 297 U. S. 288; *Aetna Life Ins. Co. v. Haworth*, 300 U. S. 227.

For the conclusion that its first decree of general affirmance of the District Court decree should be modified so as to avoid sustaining said decree on the issue of invalidity of the reissue patents, the Court of Appeals relied on *Elec-*

trical Fittings v. Thomas & Betts, 307 U. S. 241, and a series of Court of Appeals cases, and modified the District Court decree by striking out paragraph 3 thereof.

At the most the only complaint of the petitioners, aside from the counterclaim, must be that the Court of Appeals should have passed on its *defense* of invalidity. It did not do so, regarding it as not necessary. But it decided the issue sustaining other *defenses* of the petitioners and affirmed the dismissal of the Bill and Supplemental Bill. This means that petitioners succeeded below.

It is not a ground for appeal that a successful party does not like the basis for the decision.

The statement of the law by Mr. Justice Grier in *Corning et al. v. The Troy Iron and Nail Factory*, 15 Howard 451 (56 U. S. 451), is classic, where he said (p. 465):

"If the decree be correct, the party in whose favor it is given, has no right to complain; yet his appeal prays that it 'may be reversed, and the appellants restored to all things which they have lost by reason thereof'; and the record shows they have lost nothing.

If the decree be reversed, according to the prayer of the appellants, the court must necessarily enter a decree for the complainants below. This would, probably, not meet the views of the appellants. They have put themselves in the anomalous position either of asking for the affirmance of the decree from which they have appealed, or of requesting this court to reverse a decree in their favor, and send back the record to the court below, with directions to enter the very same decree, but to assign other reasons for it. The court were not bound to give any reason for their decree. The law gives the party aggrieved an appeal from a final decree of an inferior court. But it does not give the party who is not aggrieved an appeal from a decree in his favor because the judge has given no reasons, or recited insufficient ones for a judgment admitted by the appellant to be correct."

The most recent consideration of this principle was in *Electric Fittings v. Thomas & Betts*, 307 U. S. 241, saying:

"A party may not appeal from a judgment or decree in his favor, for the purpose of obtaining a review of findings he deems erroneous which are not necessary to support the decree."

In the *Electrical Fittings* case the Court did accept the appeal but only for the purpose of correcting the decree, the jurisdiction not being one which would permit passing on the merits of the controversy.

In the present matter the Court of Appeals did not reach any conclusion as to invalidity of the reissue patents, but did reach a conclusion that to consider their validity was not necessary. Hence their original decree affirming the District Court in general, was not correct, on the very principle enunciated in the *Electrical Fittings* case.

The decree as modified, however, accorded with the decision of the Court of Appeals, and there is nothing in the decree of the Court of Appeals which requires correction. Instead the general principle applies that a defendant who succeeds in having the bill of complaint against him dismissed, cannot appeal because of the failure of the decree to state and sustain all of his defenses.

It seems to be the position of the petitioners (pp. 44 and 45 of their brief) that since the counterclaim set up invalidity, this in some way required the Court of Appeals to pass on invalidity as a **DEFENSE** to the Supplemental Bill. This position does not seem clear. The effect of the decision striking out the "grant" by the District Court of the counterclaim, was that it should be stricken because the counterclaim did not state a good cause of action in Declaratory Judgment. Thus petitioners' argument neglects the very basis of the ruling against which it appeals.

• (2) **The Counterclaim Was Bad As a Suit for Declaratory Judgment.**

We have shown that the position taken by Freeman throughout the trial and in the Court of Appeals was that the counterclaim in this cause, if we dismiss from mind the effort to have the Court write a new contract for the parties, was but an effort to seek to try the issue of invalidity of the reissue patents, while holding onto rights thereunder.

To have a right to a declaration that a patent belonging to another is invalid, the party filing the declaratory judgment action must show that he is concurrently threatened with a suit for infringement under the patent, i. e., subject to injunction if the patent is valid.

The statute says, U. S. C. A. 28, Sec. 400, that declaratory judgment may be entertained

“In cases of actual controversy. . . .”

What this means has been interpreted in a series of decisions of this Court, among which are *Aetna Life Ins. Co. v. Haworth*, 300 U. S. 227, and *Ashwander v. Tennessee Valley Authority*, 297 U. S. 288, which were relied on, as already noted, by the Court of Appeals.

In *U. S. v. West Virginia*, 295 U. S. 463, this Court said:

“No effort is made by the Government to sustain the bill under the Declaratory Judgment Act of June 14, 1934. It is enough that the act is applicable only ‘in cases of actual controversy.’ It does not purport to alter the character of the controversies which are the subject of the judicial power under the constitution. See *Nashville C. & St. L. R. Co. v. Wallace*, 288 U. S. 249.”

In the present matter, as admitted in the answer of the petitioners to the supplemental bill, royalties were paid to

Freeman by petitioners on all dies under his license contract except those in controversy in this case, because:

"They were subject to an immediate infringement suit if they did not pay."

Whether for this reason or for any other reason it was decided by petitioners to continue to pay royalties to Freeman, the result of the act was to suspend any possible suit for infringement of the patents. Thus there was no action *in posse*, which could be decided by the Courts, as to whether or not the Freeman patents were valid or invalid.

For this reason it was correct to dismiss the counterclaim, and this is what the Court of Appeals did do.

We have already noted the proper interpretation of the particular language used in the single passage of the Court of Appeals' decision, which disposed of the counterclaim.

The way in which the counterclaim is couched is such that if this Court or the Court of Appeals should find the reissue procedure of Freeman such as to have resulted in valid patents, then the present petitioners have arranged for a bed to fall back upon.

Judge Davis in the District Court made the following finding of fact (Rec. p. 85):

"30. Defendants by a counterclaim have put into issue the nature of the contract rights they would have under the reissue patents, if such patents were valid. Owing to the present holdings, it is unnecessary to determine these rights and liabilities. If, however, such rights and liabilities were to be found, the facts are that they would have to be limited to the three claims held valid by the First Circuit Court of Appeals and as interpreted therein. If the reissues were not invalid, defendants would be entitled to a new contract substituting reissue 20,202, as herein interpreted, for the original Freeman patent."

It will be noted that this finding does announce to the Appellate Court that if they should find the reissue patents valid, then the District Court proposed to inject them into the pending contract to the extent that they were found to be valid.

To our view this further illustrates the vice of the counterclaim as relating to an advisory controversy. It was directed to an effort to get a finding of invalidity, but if this were not successful anywhere along the line, to fall back upon the contract again. In the meantime royalties were paid.

The whole counterclaim was bad, and there was no justice in it. It proceeded on the theory that Freeman did a wrong to Altvater when he reissued his patent, whereas the act of reissue was to correct errors in the patent and the Commissioner of Patents was evidently of the opinion that as granted the reissue patents were valid, otherwise he would not have granted them.

The following cases hold that where a contract is made as to a patent, it is satisfied by tender of a reissue or reissues thereof, *Hawley v. Whipple*, Fed. Cases No. 13286; *Read v. Bowman*, 2 Wallace (69 U. S. 591).

The brief for petitioners urges that the counterclaim was a good one, relying on a series of cases from Courts of Appeal which are stated to be rulings in favor of such a contention. However, these cases are ones where patent, trade-mark or copyright suits were originally instituted and the defendants, faced by such actions, counterclaimed for a ruling as to invalidity. One of the cases cited was where the patent infringement suit was merely threatened. In the present matter there was no patent suit threatened and there could not have been. The petitioners were paying royalties regularly as if under the license contract with the reissues substituted, which was what Freeman had sought to accomplish. Thus, no suit was threatened at all, as to the regular dies sold by petitioners.

The result is that what petitioners really sought was to get advice from the Court as to whether or not it should stop paying royalties. This was not a justiciable controversy. Because an action might be filed against a person if that person chose to change his position, does not create a right to an adjudication which will assist in deciding whether to change position or not.

Thus, while it is true enough that Freeman might have sued Altvater had he refused to continue paying royalties under the reissue patents, still so long as Altvater continued to pay the royalties, he was not subject to such a suit. His attempt, by counterclaim to get an adjudication of the patents, is *purely advisory*, so long as he maintained a position in which he was not an infringer in case the patents were held valid, contrary to his contentions.

(3) The Unclean Hands Defense Is Not Involved on the Appealable Issue Before This Court.

As noted in the statement of facts in this brief, the petitioners seek to interest this Court in certain allegations as to what is said to be "unclean hands" on the theory that this should impel the Court to wish to consider the validity of the Freeman reissue patents.

The same type of argument was made in the Court of Appeals and did not impress that Court, nor impel it to consider the validity of the reissues. Furthermore, such an effort to drag this subject into the present matter is thus confessedly an effort to import prejudice and obscure the real issues involved.

The petitioners place reliance on the case of *Sola Electric Co. v. Jefferson Electric Co.*, 87 L. Ed. 150, ... U. S. This decision is one which relates to an entirely different situation.

In the *Sola* case, the question was one of estoppel arising against a licensee to contest validity of a patent which was

being used as a basis for controlling prices. This Court believed that estoppel being according to local law would not apply as against the Federal Law, which prohibited fixing of prices as Unfair Competition. In the *Sola* case, if in fact the patent which it was sought to be held invalid, was effectively invalid, as, for example, by having been held invalid in a previous decision, as was urged, then the plaintiff was seeking to fix prices on something on which it did not have a patent. This would be illegal, and apparently the theory of the Supreme Court was that since defendant had the right to prove that it was being sued under an illegal contract, it could defend itself on the ground that the patent was invalid or had been held invalid. The right to make out this defense justified a Declaratory Judgment of invalidity in favor of the licensee. Estoppel was thus ruled out as a controlling legal point in favor of the Federal Law involved in the defense.

In the present cause no price fixing is involved at all, nor any attempt to control unpatented matters, but even if there were, the contract in suit was held terminated in December 1936, and it was held that the controversial dies made by Altvater were not an infringement of the patents anyhow. This disposed of the case. The petitioner won.

In the *Sola* case, the defendant stopped paying royalties. In the present case the defendants continued to pay the regular royalties while at the same time seeking to contest validity, or to get a new contract to the extent that the patents had validity. These royalties were for dies on which Freeman was held to have *valid claims* in the *Premier* case.

The validity or invalidity of the reissue patents here has nothing to do with a question of whether the contract between Freeman and Altvater was a good contract, because the contract in suit here terminated in December

1936 on the day that the reissues were granted, as held by the Court of Appeals.

There is no application in this case of the *Sola Electric* doctrine.

(4) The Reissue Patents Are Not Invalid on the Grounds Pleaded.

We have already noted that this cause does not involve a pro and con record relating to validity of patents. The attack on the reissue patents here is based on technical grounds.

This Court held in *Maytag v. Hurley*, 307 U. S. 243, that if a patent had been held invalid and improper disclaimer filed in order to attempt to cure it, then in a subsequent suit the patent would be held completely invalid, irrespective of whether or not aspects thereof not theretofore involved might be valid.

The disclaimer statute states that a patent held invalid in part can be cured by disclaimer which eliminates from the patent all contested matter, leaving only matter which "is definitely distinguishable from the part claimed without right." This Court in the *Maytag* case held that if disclaimer was followed as the sole course of trying to save what remained of a patent held partly invalid, and it did not disclaim sufficiently, then the whole patent was invalid if suit were brought in another circuit and the retained claims not relied upon in that suit. The Court analyzed claim 39 of the patent in suit and held that it was not distinguishable from other claims which had been disclaimed, and furthermore, the plaintiff had not sued on this claim.

The Court did not hold that the decision wherein the patent had been held partly invalid became the law of the disclaimed patent. It merely compared disclaimed claims

with retained claims and taking the patentee at his word that the disclaimed claims should have been eliminated, found that the disclaimer was inadequate to save the patent, since a similar claim had been retained.

The petitioners contend that the *Maytag* case rule applies to the present cause, even though the patents are reissue patents. It is our contention that the *Maytag* rule cannot be held to apply on the facts, first, because the patents are reissue patents and not the original patent plus a disclaimer, and second, because the disclaimer was but part of the reissue proceedings.

On the first point, we refer to Rule 90 * of the U. S. Patent Office which requires that in a reissue application, each and every claim is subject to re-examination. Therefore, each claim is readjudicated by the Commissioner of Patents, whether it is brought over from the original patent or not. It is, therefore, *prima facie* valid.

On the second point, we have set forth the facts fairly fully. The disclaimer in this matter was filed after allowance of the reissue applications, and on its face referred to the reissue applications. It is not clear in the law as to whether, after a decision against part of the claims of a patent, it is necessary to file a disclaimer *in addition to* a reissue application, where the latter course is pursued.

The leading case on the subject, *Motion Picture Patents v. Laemmle*, 214 Fed. 787, holds that where reissue application is filed after a previous Court decision, it is not necessary to file a statutory disclaimer.

In the lower court decisions in *Carbide and Carbon Chemicals Co. v. Industrial Chemicals Co.*, which later came to this Court on other issues, it was contended that the pat-

* "90. An original claim, if reproduced in the reissue specification, is subject to re-examination, and the entire application will be revised and restricted in the same manner as original applications, excepting that division will not be required."

entee should have filed a disclaimer as well as a reissue application. The District Court in 15 Fed. Supp. 813 and the Court of Appeals in 121 Fed. (2d) 665, held that no disclaimer was necessary in view of the fact that there had been no previous decision of a Court holding invalid the claims dropped on reissue. Had Freeman not filed a statutory disclaimer, petitioners would, no doubt, have relied on these decisions to show that he should have done so, since in this case, unlike the *Carbide and Carbon Co.* case, there was in fact a previous holding of invalidity.

Therefore, it is contended to be reasonable for Freeman to have exercised due caution by filing a statutory disclaimer, after he had filed his reissue applications and they had been allowed, but before they were granted. No court has ever held that such a procedure was improper, and it could in no way affect the rights which Freeman could assert, since these were confined to the reissues, and his disclaimed original patent was gone.

What the petitioners urge (and it seems to have been followed in the decree of the District Court) was, as we have noted, that in some mystical way the disclaimer destroyed the original patent, wherefore, the reissue patents became invalid. However, we maintain that it is perfectly clear on the face of the Patent Office proceedings, including the wording of the disclaimer itself (which petitioners do not fully quote), that the disclaimer was but part of the reissue proceedings, and that the patents are to be considered as reissue patents with no right asserted against the public by virtue of the disclaimer.

Freeman after reissue, obtained a decree in the *Premier* case validating reissue patent 20,202 and was permitted to go on to an accounting. Had he not disclaimed in a statutory manner, there is considerable doubt that he could have gone into the accounting phase as the statute on disclaimers is worded. (*Freeman v. Premier*, 25 Fed. Supp. 927.)

We contend that, on reason as well as on authority, the reissue patents of Freeman are not rendered *ipso facto* totally invalid, even if they were to contain a claim which was not definitely distinguishable from claims which were held invalid in the original patent. Such a claim might be invalid, not the entire reissue. The disclaimer statute is a different matter.

Naturally, we contend that the reissue claims are indeed definitely patentable. The Commissioner of Patents agreed with us, or he would not have granted the reissues. If it be required that a patentee put his claims in jeopardy after an adverse decision, Freeman has done so, by putting himself before the Commissioner of Patents as to all of his claims. To defeat the reissue one must show the prior art, not attack it on the basis that the claims are the sole result of an election of the applicant therefor. If any claim is invalid this could not render the entire reissue invalid—which is what petitioners seem to urge, because it is essentially an act of the Commissioner of Patents—utterly unlike a disclaimer.

REISSUE 20,203

Very briefly, the essential point of this reissue is that even though we concede that the anvil die claims *per se*, may not have exhibited more than mechanical skill, once the concept of the necessity for changes over prior structure was recognized, still the entire cut-out machine assembly, with the independent press plunger, permitting complete bringing together and locating of that portion of the work to be punched with holes, and the die to punch them, before the press plunger was depressed, the work being tensioned flat with respect to the die and held by the operator, was patentably novel. Or else, if the Court of Appeals in the *Premier* case is to be taken at its word, and the invention is one more of a method than a machine, then

the method of using the instrumentalities in question is one way of stating the invention.

Comparison of the reissue claims selected by petitioners, with the claims held invalid in the *Premier* case, will show that the reissue claims were for the complete machine, or else related to a method for forming cut-out shoes, using the machine. The dropped claims related to the anvil and die as a "sub-combination."

Reissue 20,203, if its validity were in question because of the theory of the petitioners, is contended to be a perfectly valid patent, even if the *Premier* decision is the "law of the patent." We deny that it is. The decision in 66 Fed. (2d) 506 (the original cause between the present parties), also states the invention of Freeman. We regard it as the law of this case, *particularly as it was rendered in a decision between the present parties, as to the identical contract, and as to the identical invention, here involved.* The claims held invalid in the *Premier* decision were not before the Court of Appeals in *Freeman v. Altvater*.

The original claims regranted in the reissue 20,203 were not in issue in the *Premier* case. In the *Altvater* case, the scope of these claims was in issue, but not their validity. Hence, in either decision, the remarks defining the invention inherent in the Freeman machine as a whole were *obiter dicta*. Which decision is correct? We say that as against Altvater, at least, the decision in *Freeman v. Altvater* states the law.

REISSUE 20,202

As to this reissue, claim 6, which was the claim relied upon by respondents in the present cause, was held valid in the *Premier* case. Thus this reissue surely contains at least one claim which if the *Premier* case is the law of the patent, would tend to sustain this reissue.

What petitioners contend, however, is that claim 7 of this reissue is not patentably distinct from claim 79 of the original patent, which was held invalid in the *Premier* case, and was dropped on reissue and included in the statutory disclaimer. Claim 19 of the original patent which is like claim 7 was not in suit against *Premier*. The point of claim 7 was that the particular mask plate of Freeman was bent in shape. This permitted it to be brought down in a preliminary way, the work adjusted, and then the plate pressed down around the work, as it were, to give enhanced clamping action. There was no such aspect involved in any way in the *Premier* case, since the defendant there used a plain flat plate. There is no art which shows the construction claimed. Claim 79 of the original patent does not mention this feature.

Petitioners make a general sort of a statement as to certain other claims in reissue 20,202. This is a particularly misleading statement because they select words as showing a noninventive type of structure, which words were the same that the Court of Appeals in the *Premier* case had held were valid expressions setting forth the novelty of the mask.

It is contended that this reissue is invalid because there is no accident or mistake shown. The decision of a Court interpreting the claims of a patent is good ground for reissue. This was held in *Motion Pictures Patents v. Laemmle*, 214 Fed. 787. It is common ground for presentation of reissues. There could be no clearer inadvertence than thinking that a claim was valid and being met with a court decision to the contrary.

It is our position (a) that the reissues are not attackable on the technical grounds asserted by petitioners, (b) that even if the technical grounds asserted were to be considered as sound, still the reissues are good, because they

do express invention. The latter point we must present on a very unsatisfactory record because the proofs do not go into the subject, since only the technical grounds, based on comparison of claims, were pleaded or urged.

It is asserted on page 43 of petitioners' brief that all of the reissue claims are invalid because not inventive over the art, but we must again note that this was not pleaded, and hence no proofs were taken with respect thereto. Indeed, when introducing the prior patent references, counsel for petitioners (Rec. p. 803) did not offer them as anticipating the Freeman inventions. The record here is utterly inadequate on the issue of validity over the art, as we have repeatedly noted, and through no fault of the respondents.

MARSTON ALLEN,

Attorney for Respondents.

APPENDIX

The Amended Answer, on the basis of which the Free-man license and machine lease contracts are attacked, reads as follows:

"Amendment to Answers of Defendants)
(Filed February 7, 1940.)

The defendants hereby amend their answers heretofore in the present case by adding thereto the following:

That the plaintiffs come into this Court with unclean hands because of the fact that they have, through the medium of license contracts, attempted to make and have made for themselves monopolies in unpatented devices; and specifically that the plaintiffs have employed the patents in suit contrary to law to establish and maintain for themselves severally a monopoly in unpatented dies when used in the industry in connection with certain machines or pursuant to a certain method. To this end the plaintiffs license their patented machines exclusively for use with unpatented dies both from themselves or specified manufacturers, and no others; and further the plaintiffs license certain persons to make dies for use with the licensed machines only on consideration that they make such dies, which in themselves are unpatented, for no others.

Defendants further charge, therefore, that this suit is brought as a part of a plan or scheme to create such an unlawful monopoly in the sale of unpatented dies and to prevent the rightful users of the machines from buying unpatented dies from others and in particular from this defendant.

**LAWRENCE C. KINGSLAND,
EDMUND ROGERS,**
Attorneys for Defendants."

(1) Our first point is that there is no basis in the law whereby a patent *must be held invalid* because it is not being properly administered. Petitioners do not so contend.

The gravamen of all decisions is that a court of equity *will refuse to sustain* a patent if it appears that the proponent has been guilty of inequitable conduct. But no such issue is presented here. There is no proponent, no patents which this court is petitioned to sustain, and no justiciable controversy.

(2) Our second point is that in all previous cases in this Court where misadministration of a patent grant has been in question, the patentee has been found to be doing business in something not patented to him, and trying to use his patent to maintain a monopoly in that line of business. No such activity is charged here.

(3) Our third point is that it is evident from the very basis of the charge that Freeman has licensed his competitors freely, to make and sell the devices on which he has patents. He has licensed some concerns to make machines and dies, and some concerns to make only dies. In each case the licenses relate to machines and dies on which he has patent rights.

(4) The petitioners recklessly attempt to make out by the bare language of the contracts with Brockton Perforating Machine Co., George Knight & Co., and the United Shoe Machinery Co., which include right to make machines as well as dies, the showing of some kind of scheme. The Court will note the contemptible play on the size of the United Shoe Machinery Co. Because so large a company chooses to submit to a small inventor in Cincinnati, Ohio, working with a modest machine and die shop there, and agrees to pay ten per cent royalty on all machines and dies made under his patent, does not show lack of merit in the small inventor's patent rights. Because an inventor has to agree to charge more royalty from future licensees than from his first three licensees does not mean that he is acting fraudulently, let alone acting outside of his patent.

(5) It is true that respondents lease their machines. It is false that these leases are conditioned upon an agreement to buy patented dies only for the machines. Also it is false to say that respondents always lease their machines (R. p. 490). The leases of machines simply state in effect that the lease of the machine does not carry with it a right to infringe on the claims on dies.

(6) The die licenses restrict the sale of anvil dies to users of machines which are licensed, not to possessors of leased machines, as is alleged. It is true that since the reissues, anvil dies without masks are not claimed per se, but dies for use in a cut-out machine coming under the patent, are a part of the machine when installed, constitute a rebuilding of the machine and hence would create infringement, if inserted in a machine built to accommodate them. *Leeds & Catlin v. Victor*, 213 U. S. 325. See discussion of this case in *Carbice v. American Patents Dev. Corp.*, 283 U. S. 420. See claim 32 of reissue 20,203. The Court of Appeals did not appreciate this point. Furthermore, there is nothing to show on this record that anyone ever made an anvil die without a mask except The Premier Co. Altvater testified in the accounting, to which this case is ancillary, that he never did.

(7) Because Freeman indeed licensed all of his competitors, this is termed a throttling of industry—a strange argument whereby to attempt to compare the Freeman patent situation with that of the Morton Salt Co., The Barber Asphalt Co., the B. B. Chemicals Co. A universal licensing to others to produce the patented product is supposed to be a benefit to the public, not a detriment.

(8) It is true that 50% of women's shoes are made on the patented machine. What this means is that these shoes, as one little item in their manufacture, are cut out with decorative holes after the uppers are completed. This does not "control" the shoe industry, as the petitioners gran-

diloquently state as there are hundreds of operations in the manufacture of a shoe. None of these shoe makers made cut-out shoes in this way before Freeman. They all adopted his ideas. This is not a picture which indicates invalidity of the Freeman patents. Untold thousands of shoes are cut on one die. Each cut-out machine lasts for years.

After making the charges, which we have refuted above, the petitioners give what they call specific illustrations.

(9) The first illustration is with reference to machine lease Exhibit X-8. The record, pages 71 to 78, shows that this particular lease dated years before the patent issued, *was a dead letter long before the patent issued*. The attempt to characterize the machine leases of Freeman by this old, dead and gone lease, is misleading to the highest degree.

We have above characterized as false, and we again say that it is false, that Freeman limits the users of his machines to patented dies. The machine leases since the grant of the Freeman patent read as follows:

"It is understood—that this lease to it of said machine does not carry with it a license to make or otherwise obtain anvils, dies, and/or masks covered by U. S. Letters Patent No. 1,681,033 for use with said machines. . . ."

All that this does is protect Freeman from being contended to have granted a license under his die patents by virtue of having sold a machine in which said dies are to be placed.

It is said that Freeman after the trial tried to correct the old leases in question. As a matter of fact, these old leases were not introduced in evidence until after the trial, and petitioners by virtue of their close contact with the owners of the two machines involved, Brown Shoe Co., and International Shoe Co., prevented them from agreeing that the leases were a dead letter. (See Rec. p. 71 et seq.)

Freeman had forgotten all about them, and had never sold a die for use upon them, because Altwater had this business from shortly after Freeman installed these machines in 1923.

The charge is unsubstantial to the highest degree.

(10) It is charged that Freeman in some of his contracts granting licenses to die makers, provided that they would not sell anvil dies or masks for use in making cut-outs in shoe uppers except those licensed. In a few contracts he also provided that if any such were made, that royalties would be paid to him upon them. The chances are good that any such dies would come under the patents, but in addition such provisions have been held to be reasonable. Also the basis for royalty in a contract is not a matter which involves "monopoly."

No die has been shown on this record to have been accounted for to Freeman, which falls outside of reissue 20,202, anyhow.

Such provisions against the licensee competing with the licensed product have been held valid at various times. In Missouri, where this suit was tried, such a provision was upheld in *Standard Fireproofing Co. v. St. Louis Fireproofing Co.*, 177 Mo. 574, and *Billings v. Ames*, 32 Mo. 265; see also *Morse Twist Drill & Machine Co. v. Stephen A. Morse*, 103 Mass. 73. See also the reasoning in *Fowle v. Parke*, 131 U. S. 96, 97.

In *Freeman v. Altwater*, 66 Fed. (2d) 506, the legality of a provision aimed at the same end as the ones above noted was attacked. The Court of Appeals sustained the contract.

(11) It is charged that in the Freeman contracts he sometimes specified a certain broad definition of the scope of his machine claims. What he did was in effect to describe the type of machine which petitioners had come out with in order to try to defeat their license and which was held

to be interdicted by the contract here in suit in *Freeman v. Altvater*, 66 Fed. (2d) 506. In other words, Freeman was right in the description that he inserted in his licenses.

(12) The entire policy is said to be the creation of a monopoly in the shoe cutting-out field. *This is false.* The entire policy is directed toward the licensing of others under the Freeman patent rights within the shoe cutting-out field. *Being badly burned by his contacts with Altvater, Freeman took precautions that this should not be his treatment in subsequent licenses.* If he went too far, in order to try to prevent cheating by his licensees, still this is not an attempt to maintain a monopoly in his own factory, for any item whatever, which was not within the patent, nor a showing that any such provisions were ever called upon to be exercised.

(13) So far as concerns the Manufacturers Supplies license where Freeman is said to have a right to fix prices, the record is quite silent as to this matter. The contract was dated in 1923, five years before the patent was granted. As a matter of fact, the license was between the Freeman Company at Cincinnati, and a family-owned company in the same business at St. Louis. As a further matter of fact, it was dropped and eliminated long before the patent was granted, and no prices fixed at any time.

We have not included the above in our main brief or argument, because we do not consider it involved in any issue before this Court. However, we trust that by the above we have shown the Court very briefly something of the true picture as to the Freeman contracts and leases. Freeman happens to be a relatively small stockholder in The Louis G. Freeman Co., which is the other respondent. He seeks to throw business in patented machines to that company, but has not sought to give them a monopoly on his patented machines. As to the many die makers who have recognized his patents, these concerns make and sell

dies under his patents. No one makes or sells any die and pays royalty thereon, so far as Freeman knows, who is not making a die under claims of his patents.

The case which petitioners make out is based on several old leases dated 1923, and one old contract dated 1923, *all of which were gone long before the patent issued*. This sums up fairly well the type of attack that we have here. Its very "thinness" accentuates the unfair way in which the general charges are made.

We have made a few remarks *de hors* the record in the above. The record is so meager on this whole subject that both petitioners and respondents find difficulty in discussing it without resort to matters outside it. Our justification for it is that so far as the record shows, what we say could well be true. If so, then petitioners, on the record have failed to make out a case. The record is far too meager to warrant the outrageous charges made, and coming from the die maker who makes more cut-out dies than all others combined in this country, they are obviously insincere.

MARSTON ALLEN,

Attorney for Respondents.

SUPREME COURT OF THE UNITED STATES.

No. 696.—OCTOBER TERM, 1942.

A. W. Altvater and the Western Supplies Company, Petitioners,
vs.
Benjamin W. Freeman and The Louis G. Freeman Co. } On Writ of Certiorari to
the United States Circuit Court of Appeals
for the Eighth Circuit.

[May 24, 1943.]

Mr. Justice DOUGLAS delivered the opinion of the Court.

This suit, lodged in the federal District Court by reason of diversity of citizenship, was brought by respondents for specific performance of a license agreement under reissue patent No. 20,202 issued to Freeman in 1936 for a cut-out machine for shoe uppers, it being alleged that the reissue patent was substituted under the agreement for the original patent—No. 1,681,033.¹ The bill alleged that contrary to the provisions of the license agreement petitioners were manufacturing and selling certain devices which infringed the reissue patent and that they had not confined themselves to the territory in which the license agreement permitted them to make sales of the patented article. The bill asked for specific performance, for an injunction, and for an accounting. Petitioners answered denying generally the allegations of the bill and setting up various defenses. They charged among other things that the two reissue patents obtained on the surrender of the original patent were invalid; and they asserted that while they had made payments of royalties under the reissue patents, they did so in protest and that those payments did not substitute the reissue patents for the original patent under the license agreement. Petitioners also filed a counterclaim praying for a declaratory judgment. They alleged in the counterclaim that the license agreement did not cover the reissue patents; that they were willing to pay royalties if the agreement covered the reissues and if they were valid; that the reissues were not valid, but that if peti-

¹ Two reissue patents — No. 20,202 and No. 20,203 — were obtained for Patent No. 1,681,033 which was surrendered. The contract was based upon the latter patent. It licensed petitioners to make certain dies coming within the original patent, within a limited territory and for use with certain machines, upon payment of royalties. Petitioners likewise agreed not to make any machines coming within the original patent; and they waived the right to contest the validity of the patent during its life.

tioners cancelled the license agreement and refused to pay any royalties under it, they would be subject to infringement suits. They accordingly alleged that in order to protect the business built up in good faith under the license, an adjudication of the controversy and dispute between the parties was necessary. They prayed that the reissue patents be declared invalid but that if they were held to be valid, the license agreement be extended to them. In a reply to the counterclaim respondents denied its essential allegations and alleged among other things that there was no justiciable controversy between the parties as set forth in the counterclaim and therefore that petitioners had no right to the declaratory judgment.

A brief summary of earlier litigation between the parties will help sharpen the outlines of the present controversy. The license under the original patent was executed in 1929. Shortly thereafter petitioners marketed a machine known as Model T which respondents claimed violated the agreement. They accordingly brought a suit for specific performance of the agreement, charging violation of its covenants and infringement. The court held in *Freeman v. Altvater*, 66 F. 2d 506, that the validity of the patent was not in issue since petitioners being licensees were estopped to assert its invalidity. The court concluded, however, that the machine did infringe. An accounting was ordered. Respondents endeavored later on to have the accounting cover the accused devices involved in the present suit. That effort was not successful. Meanwhile, *Premier Machine Co. v. Freeman*, 84 F. 2d 425, was decided. It was a suit for infringement of the original patent, the defense being invalidity. Of the 94 claims of the patent, 26 were involved in that suit. The court held that only three of that group were valid. That was in June 1936. In November 1936 Freeman filed a disclaimer covering all claims held invalid in the *Premier Machine* case. Later in 1936 he surrendered his original patent and obtained reissue patents. The invalidity of the reissue patents was asserted in the present suit on the grounds among others that the disclaimer was improper and that the reissue patents were devoid of patentable subject matter.

The District Court after a hearing found that the accused devices did not infringe respondents' reissue patents; that the decision in the *Premier Machine* case, 84 F. 2d 425, holding only three of the twenty-six claims of the original patent valid, constituted an eviction under the license agreement; that the license agreement terminated with the surrender of the original

patent in 1936; that petitioners did not make the reissue patents the basis for a new license contract; that while petitioners since the date of the reissue patents paid certain royalties they did so under protest and pursuant to the injunction which was entered in the first *Altwater* case, 66 F. 2d 506; and that the reissue patents were invalid. The District Court accordingly dismissed the bill of complaint and granted the prayer of the counterclaim. The Circuit Court of Appeals affirmed (129 F. 2d 494), holding that the District Court was warranted in concluding that the original license agreement was at an end and that the continuance of royalty payments did not indicate an acceptance of the reissue patents to form a new contract; that the issue of infringement involved only claim 6 of reissue patent No. 20,202, the charges that other claims were infringed having been abandoned; and that the accused devices did not infringe. On a petition for rehearing and motion to modify the opinion and revise the decree, the Circuit Court of Appeals ruled that when the District Court found no contract of license and no infringement, the other issues became moot and there was no longer a justiciable controversy between the parties. 130 F. 2d 763. It accordingly modified the decree by striking from it the provisions which held that Freeman was evicted from his monopoly by the decision in the *Premier Machine* case and that the reissue patents were invalid, and the further provision which resolved the issues on the counterclaim in favor of petitioners, saying that it expressed no opinion on those questions. The case is here on a petition for writ of certiorari which we granted because of the apparent misinterpretation by the Circuit Court of Appeals of our decision in *Electrical Fittings Corp. v. Thomas & Betts Co.*, 307 U. S. 241.

That case was tried only on bill and answer. The District Court adjudged a claim of a patent valid although it dismissed the bill for failure to prove infringement. We held that the finding of validity was immaterial to the disposition of the cause and that the winning party might appeal to obtain a reformation of the decree. To hold a patent valid if it is not infringed is to decide a hypothetical case.² But the situation in the present case is quite different. We have here not only bill and answer but a counterclaim. Though the decision of non-infringement disposes of the bill and answer, it does not dispose of the counterclaim which raises the question of validity. *Sola Electric Co. v. Jefferson Electric Co.*, 318 U. S. — is authority for the proposition that the issue of validity may be raised by a counterclaim in an infringement

² See *Cover v. Schwartz*, 133 F. 2d 541.

suit.³ The requirements of case or controversy are of course no less strict under the Declaratory Judgment Act (48 Stat. 955, 28 U. S. C. § 400) than in case of other suits. *United States v. West Virginia*, 295 U. S. 463, 475; *Ashwander v. Tennessee Valley Authority*, 297 U. S. 288, 325; *Aetna Life Ins. Co. v. Haworth*, 300 U. S. 227; *Maryland Casualty Co. v. Pacific C. & O. Co.*, 312 U. S. 270. But we are of the view that the issues raised by the present counter-claim were justiciable and that the controversy between the parties did not come to an end (*United States v. Alaska S. S. Co.*, 253 U. S. 113, 116) on the dismissal of the bill for non-infringement, since their dispute went beyond the single claim and the particular accused devices involved in that suit.

It is said that so long as petitioners are paying royalties they are in no position to raise the issue of invalidity—the theory being that as licensees they are estopped to deny the validity of the patents and that so long as they continue to pay royalties, there is only an academic, not a real controversy, between the parties. We can put to one side the questions reserved in the *Sola Electric Co.* case—whether as held in *United States v. Harvey Steel Co.*, 196 U. S. 310, a licensee is estopped to challenge the validity of a patent and if so, whether that rule of estoppel is one of local law or of federal law. In the present case both the District Court and the Circuit Court of Appeals have found that the license agreement was terminated on the surrender of the original patent and was not renewed and extended to cover the reissue patents. The fact that royalties were being paid did not make this a "difference or dispute of a hypothetical or abstract character." *Aetna Life Ins. Co. v. Haworth*, *supra*, p. 240. A controversy was raging, even apart from the continued existence of the license agreement. That controversy was "definite and concrete, touching the legal relations of parties having adverse legal interests." *Aetna Life Ins. Co. v. Haworth*, *supra*, pp. 240-241. That controversy concerned the validity of the reissue patents.⁴ Those patents had many claims in addition to the single one involved in the issue of infringement. And petitioners were manufacturing and selling additional articles claimed to fall under the patents. Royalties were being demanded and royalties were being paid. But they

³ And see *Leach v. Ross Heater & Mfg. Co.*, 104 F. 2d 88; *Borchard, Declaratory Judgments* (2d ed.) pp. 812-814.

⁴ Shortly after the grant of the reissue patents petitioners filed a suit for declaration of their invalidity. The Circuit Court of Appeals sustained a dismissal of the bill on the ground that all of the matters placed at issue in that suit could be settled in the present one. *Western Supplies Co. v. Freeman*, 109 F. 2d 693.

were being paid under protest and under the compulsion of an injunction decree. It was to lift the heavy hand of that tribute from the business that the counterclaim was filed. Unless the injunction decree were modified,⁵ the only other course was to defy it, and to risk not only actual but treble damages in infringement suits. Rev. Stat. § 4919, 35 U. S. C. § 67. It was the function of the Declaratory Judgment Act to afford relief against such peril and insecurity. S. Rep. No. 1005, 73d Cong., 2d Sess., pp. 2-3. And see Borchard, Declaratory Judgments (2d ed.) pp. 927 *et seq.* And certainly the requirements of case or controversy are met where payment of a claim is demanded as of right and where payment is made, but where the involuntary or coercive nature of the exaction preserves the right to recover the sums paid or to challenge the legality of the claim. See *Maxwell v. Griswold*, 10 How. 242, 255-256; *United States v. Lawson*, 101 U. S. 164, 169; *Swift & Co. v. United States*, 111 U. S. 22, 28-30; *Atchison, T. & S. F. Ry. Co. v. O'Connor*, 223 U. S. 280, 286; *Gaar, Scott & Co. v. Shannon*, 223 U. S. 468, 471; *Union Pac. R. Co. v. Public Service Comm.*, 248 U. S. 67, 70; Woodward, The Law of Quasi Contracts (1913) § 218.

Our conclusion is that it was error for the Circuit Court of Appeals to have treated the issues raised by the counterclaim as moot. They were not moot; and the District Court had passed on them. Accordingly, the Circuit Court of Appeals should have reviewed that adjudication.⁶ The judgment is reversed and the cause remanded to the Circuit Court of Appeals for that purpose.

Reversed.

⁵ On April 15, 1948, while this case was pending here, the Circuit Court of Appeals granted petitioners leave to apply to the District Court to vacate the decree in the first Altwater suit, 66 F. 2d 505. The basis of that motion appears to be substantially the same as the counterclaim in the present suit. This underlines and gives added emphasis to the claim that there is a controversy between the parties with respect to the validity of the patents growing out of events subsequent to the first Altwater case. It further serves to demonstrate that the required payment of royalties under that decree does not establish the absence of a controversy.

⁶The proposal that the cause should be remanded to the District Court so that it might pass on those issues once more before the Circuit Court of Appeals reviews them does not emanate from the Circuit Court of Appeals. Its refusal to review that adjudication rests on a misinterpretation of *Electrical Fittings Corp. v. Thomas & Betts Co.*, *supra*, not on any inadequacy or insufficiency of the findings of the District Court. If the standards of good judicial administration be considered, we fail to see why petitioners should be put to two trials of the same issues before a review by the Circuit Court of Appeals may be had. Nor would it comport with sound judicial administration to uphold a denial of appellate review where the controversy between the parties still rages and where the appeal was dismissed because of a mistaken view of the law.



SUPREME COURT OF THE UNITED STATES.

No. 696.—OCTOBER TERM, 1942.

A. W. Altvater and the Western Supplies Company, Petitioner,
vs.
Benjamin W. Freeman and the Louis G. Freeman Co. } On Writ of Certiorari to the United States Circuit Court of Appeals for the Eighth Circuit.

[May 24, 1943.]

Mr. Justice FRANKFURTER.

We are concerned here with a problem in judicial administration, not a question in algebra as to which there is a demonstrably right or wrong answer. The case before us presents only one phase of an extensive, complicated patent litigation involving numerous technical and interdependent issues. The question which we must now decide is this—in view of the present posture of the controversy, shall one of these issues be adjudicated in the manner indicated by the Circuit Court of Appeals, or shall this Court direct that it be adjudicated upon the defendants' counterclaim for a declaratory judgment? We are all agreed that while a district court may have jurisdiction of a suit or claim under the Federal Declaratory Judgments Act, 28 U. S. C. § 400, it is under no compulsion to exercise such jurisdiction. If another proceeding is pending in which the claim in controversy may be satisfactorily adjudicated, a declaratory judgment is not a mandatory remedy. Sound judicial administration requires, in my view, that we decline to interfere with the procedure which the court below has provided for the adjudication of the claims for which the defendants sought a declaratory judgment.

This litigation is wrapt in confusion, but from it I extract the following history of its course through the courts. In the early 1930's a suit for infringement of a shoe machine patent was brought by the patentee, Freeman, against Altvater, a licensee. This resulted in a ruling in 1933 by the Circuit Court of Appeals for the Eighth Circuit in *Freeman v. Altvater*, 66 F. 2d 506, that the patent had been infringed and that the licensee was estopped to assert its invalidity. Pursuant to this decision a decree was

entered requiring Altvater to pay royalties under the license agreement. Freeman thereafter brought suit against another alleged infringer. In this proceeding the Circuit Court of Appeals for the First Circuit, held, in *Premier Machine Co. v. Freeman*, 84 F. 2d 425, that 23 of the 94 claims of Freeman's patent were invalid. Accordingly, Freeman subsequently filed a disclaimer covering the 23 claims thus held invalid, surrendered his patent, and obtained reissue patents on the remaining claims as well as some other claims not involved in the *Premier* suit.

Shortly thereafter Freeman brought a second suit against Altvater and another company. In this suit—which resulted in the action of the Circuit Court of Appeals now under review—Freeman alleged that the defendants were violating the terms of the license agreement and prayed for specific performance of the agreement. The defendants denied this allegation, and, by way of counterclaim, asked for a declaration that (1) the license contract and the original patent "be interpreted in the light of the decision" in the *Premier* case; (2) the license contract "be interpreted by this Court to readjust the relationship between its parties in the light of the facts transpiring since it was entered into"; (3) the license agreement be declared terminated as of the date of the surrender of the original patent; (4) the reissue patents be declared invalid, "but, if either is valid, then to interpret it or them into its or their proper scope in the light of the facts occurred"; (5) in the event that the reissue patents be found valid, the plaintiffs be directed "to grant to the defendants a license under them of a scope to permit their business to be continued to the extent it could operate under the original contract, and at a royalty commensurate with the protection afforded by the patents"; and (6) the injunction against violation of the license agreement be declared terminated because of the expiration of such agreement.

The district court found that the license agreement ended with the surrender of the original patent in 1936, that the reissue patents had not been made the basis of a new contract between the parties, and that, in any event, the reissue patents included claims "not definitely distinguishable from claims disclaimed" and hence were "inherently invalid for improper disclaimer". Accordingly, the bill was dismissed. The decree recited also that "The issues on the counterclaim are found in favor of defendants and the counter-claim is granted".

Upon appeal to the Circuit Court of Appeals this ruling of the district court was affirmed, 129 F. 2d 494, but upon rehearing the court held that once it was found that the license agreement had terminated and that the reissue patents were not infringed, the remaining issues in the case, i. e., those relating to the validity of the reissue patents, were "moot" in the sense that there was no longer a justiciable controversy for the solution of which a declaration was needed. 130 F. 2d 763. While the appeal was pending before the Circuit Court of Appeals, however, the defendants petitioned the district court to vacate the decree entered under the decision of the Circuit Court of Appeals in *Freeman v. Altwater*, 66 F. 2d 506. This motion was based upon two grounds: (1) that the license agreement ended when Freeman surrendered the original patent after the decision in the *Premier* case, and (2) that there had been no valid reissue of the patent claims. Accordingly, the defendants asked that the injunction be lifted and that they be relieved of their continuing obligation to pay royalties under the license agreement. The plaintiffs objected to the jurisdiction of the district court to entertain such a motion while the appeal was pending in the Circuit Court of Appeals. The district court sustained this objection, and the defendants appealed. On April 15, 1943, after the decision of the Circuit Court of Appeals upon rehearing and while the case was pending here on certiorari, the Circuit Court of Appeals granted the defendants, the petitioners in this Court, leave to proceed in the district court to vacate the 1933 decree. In its opinion the court below expressly stated that "Whether the reissue patents are wholly invalid, as defendants contend, or, if not, whether the claims as reissued are within the protective scope of the existing injunction is a matter which the district court will have to determine." — F. 2d —

The Circuit Court of Appeals has thus committed to the district court substantially the same questions as those raised by the defendants' counterclaim, i. e., those relating to the validity of the reissue patents. By this action the Circuit Court of Appeals had effectively recalled its previous ruling that these questions were "moot". Whatever might be said, therefore, as to the correctness of its ruling that the validity of the reissue patents presented "non-justiciable" questions, the inescapable fact remains that there is now before the district court for determination a proceeding initiated by the petitioners involving the very ques-

tions raised by the counterclaim. By putting the whole case in the charge of the district court, the Circuit Court of Appeals has made it academic for us to consider the correctness of its earlier ruling that there remained no justiciable issues in the controversy between the parties. Review of the grant or denial of a declaratory judgment, like an appeal in equity, calls for disposition of the case on the basis of the circumstances found to exist when the appeal is decided. The Circuit Court of Appeals may have been in error in holding that the questions relating to the validity of the reissue patents could not be passed upon because there was no longer a "justiciable" controversy once non-infringement was found. But its subsequent action, directing the district court to pass upon these questions, is a timely correction, if such was called for, of its earlier ruling.

Therefore, it seems to me that good judicial administration should stay our interference with the Circuit Court of Appeals's exercise of its discretion in adjusting the manner by which the issues as to the validity of the reissue patents should be adjudicated. It is the Circuit Court of Appeals which, by its action of April 15, 1943, has in effect remanded the cause to the district court for determination of these issues. No valid reason appears for disturbing the disposition it has made of the litigation. The lower federal courts ought not to be narrowly confined in determining whether a declaratory judgment is an appropriate remedy under all the circumstances. We need not speculate too far as to the reasons which may have prompted the Circuit Court of Appeals in this case to remand the issues as to the validity of the patents to the district court. It may have been of the opinion, for example, that the findings of the district court lacked sufficient clarity, especially in view of the cloudiness of the pleadings. In any event, however, this seems to me to be the kind of a case in which this Court should be most reluctant to interfere with the procedure determined upon by the Circuit Court of Appeals.

If we are to consider the correctness of the ruling that the issues relating to the validity of the reissue patents are not "justiciable", I find it too difficult to accept the reasoning of my Brethren. The Court's conclusion that the Circuit Court of Appeals erred in finding "mootness" as to the questions raised by the counterclaim rests substantially upon the notion that a controversy still exists because the defendants are laboring under the "heavy" obligation of paying royalties under the license

agreement. But we have held that the controversy must be "definite and concrete", "real and substantial", in order that a declaratory judgment may be given. *Aetna Life Ins. Co. v. Haworth*, 300 U. S. 227, 240-41; and see *Md. Casualty Co. v. Pacific Co.*, 312 U. S. 270, 273. The defendants' obligation to pay royalties under the license agreement cannot be very substantial at the present time since both the district court and the Circuit Court of Appeals have held that the license agreement terminated in 1936 with the surrender of the original patent. In view of these rulings the defendants' need for "relief" is practically infinitesimal, since all that remains to be done is the entry of a formal order vacating the 1933 decree. The "insecurity" and "peril" from which litigants can be saved only by a declaratory judgment are conspicuous by their absence from this case at this time. It may very well be that one who infringes a patent should be entitled to obtain a declaration as to its validity even though he is under no contractual obligation to pay royalties as a licensee. The existence of an invalid patent may substantially impair the economic position of those who market articles which infringe such a patent, even though no infringement suits may be immediately threatened. Potential purchasers may naturally be reluctant to establish business relations upon so insecure a basis. But the Court has not chosen to sustain the propriety of a declaratory judgment here upon this ground, and it is therefore idle to consider its merits.

Mr. Justice ROBERTS joins in this opinion.